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SUNSHINE OILSANDS LTD.
陽光油砂有限公司*

*(a corporation incorporated under the Business Corporations Act of the Province of Alberta,
Canada with limited liability)*

(HKEX: 2012; TSX: SUO)

CONNECTED TRANSACTION - ISSUE OF NEW SHARES IN RESPECT OF DIRECTOR SHARE COMPENSATION ARRANGEMENT

Reference is made to the circular of the Corporation dated May 16, 2014 (the “**Circular**”). Effective 11 June 2014, the Corporation entered into contracts with all of the current directors of the Corporation (except Mr. Tingan Liu) in respect of the Director Share Compensation Arrangement, which are subject to the approval of the Shareholders at the AGM to be held on June 25, 2014 (Hong Kong time) (June 24, 2014 (Calgary time)). Unless the context otherwise requires, capitalized terms used in this announcement and not defined herein shall have the same meaning as in the Circular.

Listing Rules Implications

Since the directors of the Corporation are connected persons of the Corporation pursuant to Rule 14A.11 of the Listing Rules, the allotment and issuance of the Shares under the Director Share Compensation Arrangement constitute connected transactions of the Corporation under the Listing Rules.

The allotment and issuance of Shares under the Director Share Compensation Arrangement is subject to the prior approval of the Shareholders at the AGM pursuant to Rule 13.36 of the Listing Rules. As none of the exemptions under Chapter 14A of the Listing Rules apply, the issuance of the Shares under the Director Share Compensation Arrangement falls into the category of connected transactions described in Rule 14A.16(5) of the Listing Rules and shall be subject to the reporting, announcement and independent Shareholders’ approval requirements pursuant to Rule 14A.17 of the Listing Rules, and shall be subject to the requirements in respect of the establishment of an independent board committee and the appointment of an independent financial adviser pursuant to Rule 14A.21, Rule 13.39(6) and Rule 13.39(7) of the Listing Rules. As all independent non-executive directors have a

material interest in the Director Share Compensation Arrangement, no independent board committee can be formed. The recommendation of Investec Capital Asia Limited, the independent financial advisor to the independent shareholders, regarding the Director Share Compensation Arrangement is set out in the Circular.

Effective June 11, 2014 (subject to approval as discussed below), the Corporation entered into contracts with all of the current directors of the Corporation, save for Mr. Tingan Liu, in respect of the Director Share Compensation Arrangement, pursuant to which the Corporation shall, subject to the Corporation's discretion to reduce the number of Shares issuable under the Director Share Compensation Agreement (as set out in more details below), pay fees to the relevant directors through the issuance of Shares (the "**Share Compensation**"). The Circular, which contains details of the Director Share Compensation Arrangement, has been despatched to the Shareholders of the Corporation. The following summary is qualified in its entirety by the description of the Director Share Compensation Arrangement set forth in the Circular.

Date of the Transaction

June 11, 2014

Participants

The Corporation and Mr. Tingan Liu have mutually agreed that Mr. Liu will not participate in the Director Share Compensation Arrangement and as such Mr. Liu has ceased to have any interest in the Director Share Compensation Arrangement.

Save for Mr. Liu, all directors of the Corporation as at the date of this announcement other than the Co-Chairmen shall participate equally in the Director Share Compensation Arrangement with respect to annual retainer fees in the amount of \$40,000 (the "**Base Retainer Fees**"). The Co-Chairmen shall participate both in respect of the Base Retainer Fees they earn and in respect of an annual base service fees under their month-to-month advisory services contracts in the amount of \$37,000 per month (the "**Base Co-Chairman Fees**"). It is proposed that Mr. Jimmy Hu shall be eligible to participate in the Director Share Compensation Arrangement should he be elected as a director at the AGM on June 25, 2014.

Arrangement

The applicable directors of the Corporation shall each receive the Base Retainer Fees, certain additional retainer fees, where applicable, for serving in certain other chair and committee chair positions, and per-meeting fees. It is agreed that the Share Compensation will be paid to each applicable director in respect of 50% of the Base Retainer Fees earned by such director.

Additionally, the Co-Chairmen shall each receive the Base Co-Chairman Fees. The Share Compensation will be paid in respect of 50% of the Base Co-Chairman Fees earned by such Co-Chairman.

Subject to the Corporation's discretion to reduce the number of Shares issuable under the Director Share Compensation Arrangement (as more particularly described below), it has been agreed that the Share Compensation shall be payable as follows:

- (a) for all applicable directors, for the period from October 1, 2013 to June 30, 2014, on the later of: (i) the date that is seven clear trading days following the AGM; (ii) the date that is seven clear trading days following the day on which the Corporation's current blackout

period is lifted; or (iii) in the event the Corporation possesses any inside information, the date that is seven clear trading days following the day on which the Corporation publishes the announcement regarding the inside information;

- (b) for the Co-Chairmen, for the period from April 1, 2014 to June 30, 2014, on the later of: (i) the date that is seven clear trading days following the AGM; (ii) the date that is seven clear trading days following the day on which the Corporation's current blackout period is lifted; or (iii) in the event the Corporation possesses any inside information, the date that is seven clear trading days following the day on which the Corporation publishes the announcement regarding the inside information; and
- (c) for the Base Retainer Fees in respect of all applicable directors and for the Base Co-Chairman Fees in respect of each Co-Chairman, for each financial quarter thereafter, on the later of (i) the date that is seven clear trading days following the day on which the Corporation publishes the interim financial report in respect of such quarter (or where such quarter is the last quarter of a financial year, the day on which the Corporation publishes the annual financial statements in respect of such financial year); or (ii) in the event the Corporation possesses any inside information, the date that is seven clear trading days following the day on which the Corporation publishes the announcement regarding the inside information.

(the day described in paragraphs (a) and (b) above and each applicable day described in paragraph (c) above each being a "**Due Date**").

Calculation Mechanism

It is agreed that the number of Shares issuable as the Share Compensation will be calculated by the following formula:

$$A = B / C$$

Where:

- A** is the total Shares issuable on the Due Date when the Share Compensation paid on a quarterly basis becomes due;
- B** is the sum total of Base Retainer Fees and Base Co-Chairman Fees, where applicable, earned to the end of the financial quarter immediately preceding the Due Date; and
- C** is the price per Share at the fair market value, which,
- (i) where the Due Date falls within a blackout period, shall be the higher of
- the trading day's closing price of the Shares as stated in the daily quotations sheets issued by the SEHK or the TSX (whichever is higher) on the seventh clear trading day following the day on which the blackout period expires (the "**Extension Date**");
 - the volume weighted average trading price of the Shares on the SEHK or the TSX (whichever is higher) for the five trading days immediately preceding the Extension Date; and

- the average closing price of the Shares as stated in the daily quotation sheets issued by the SEHK or the TSX (whichever is higher) for the five trading days immediately preceding the Extension Date; or
- (ii) otherwise, shall be the higher of:
- the trading day's closing price of the Shares as stated in the daily quotations sheets issued by the SEHK or the TSX (whichever is higher) on the applicable Due Date;
 - the volume weighted average trading price of the Shares on the SEHK or the TSX (whichever is higher) for the five trading days immediately preceding the applicable Due Date; and
 - the average closing price of the Shares as stated in the daily quotation sheets issued by the SEHK or the TSX (whichever is higher) for the five trading days immediately preceding the applicable Due Date,

which price, for convenience, will be expressed in or converted to Canadian dollars at the Bank of Canada noon Hong Kong dollar – Canadian dollar exchange rate in effect on that date.

Conditions Precedent

The Director Share Compensation Arrangement shall not take effect unless and until the Corporation obtains the approval of the Shareholders at the annual general meeting of the Corporation to be held on June 25, 2014 (Hong Kong time) (June 24, 2014 (Calgary time)) (the “**AGM**”); and, thereafter, shall expire at the end of each successive annual meeting of Shareholders unless reconfirmed with the approval of the Shareholders at such meeting.

In the event the Shareholders do not approve the Director Share Compensation Arrangement at an annual meeting of Shareholders, the directors of the Corporation shall still be entitled to the Base Retainer Fees and the Co-Chairmen shall still be entitled to the Base Co-Chairman Fees, but thereafter the Corporation will pay 100% of the Base Retainer Fees and Base Co-Chairman Fees in cash.

Issuance Thresholds

The total value of the Shares issued under the Director Share Compensation Arrangement in any financial year shall not exceed 50% of the total Base Retainer Fees and Base Co-Chairman Fees of that year. Due to the fluctuation of the price of the Shares, it is not possible to predict the number of Shares that would actually be issued under the Director Share Compensation Arrangement in any given year. Please refer to the Circular for more details.

The number of Shares that may be issued under the Director Share Compensation Arrangement, together with all Shares reserved and allotted for issuance under any other security based compensation arrangements of Sunshine (including the Pre IPO Plan, the Post IPO Share Option Scheme and the Employee Share Savings Plan (“**ESSP**”)), within any 12-month period cannot exceed 10% of the total issued and outstanding Shares of the Corporation from time to time on a non-diluted basis (“**Share Compensation Limit**”).

The number of Shares issuable to “insiders” (as defined in the TSX Company Manual) of Sunshine under the Director Share Compensation Arrangement, together with any other security based compensation arrangements of Sunshine (including the Pre IPO Plan, Post IPO Share Option Scheme and ESSP), within any 12-month period and at any time cannot exceed 10% of the issued and outstanding Shares of the Corporation on a non-diluted basis (“**Insider Participation Limit**”).

Maximum Number of Shares

The Corporation intends to reserve for issuance a fixed maximum of 8,000,000 Shares for payment as Share Compensation in respect of Base Retainer Fees and Base Co-Chairman fees for the directors and Co-Chairmen of the Corporation earned from October 1, 2013 until the expiry or renewal of the Director Share Compensation Arrangement at the next annual meeting of Shareholders (the “**Fixed Maximum**”).

Discretion to Reduce the Shares issuable as the Share Compensation

The Compensation Committee has the sole discretion to reduce all or any of the Shares issuable as the Share Compensation to any one or more directors where any of the following events takes place, and the Corporation shall accordingly increase the portion of the Retainer Fees or Base Co-Chairman Fees payable in cash to account for the difference where:

1. the issuance of the Shares as Share Compensation will result in less than 25% of the total issued Share capital of the Corporation being held by the public in breach of Rule 8.08(1)(a) of the Listing Rules;
2. the issuance of the Shares as Share Compensation will exceed the Share Compensation Limit or the Insider Participation Limit;
3. the issuance of Shares as Share Compensation will exceed the Fixed Maximum;
4. the Shares issued as Share Compensation will result in the creation of a new “control person” (as defined in the TSX Company Manual) of the Corporation;
5. the Shares issued as Share Compensation will result in any director becoming the controlling shareholder of the Corporation as defined in the Listing Rules or otherwise trigger a mandatory offer under the Takeovers Code;
6. other than the successive Shareholders’ approvals to be obtained at the annual meetings of the Shareholders, the issuance of any Shares as Share Compensation would require any additional shareholders’ approval under any applicable laws or any policies of the SEHK or the TSX; and
7. the issuance of any Shares as Share Compensation will otherwise result in any violation of any applicable laws or any applicable rules or policies of the SEHK or the TSX.

Such discretion will be exercised by the Compensation Committee if and when required.

In the event that the Compensation Committee exercises its discretion to reduce the number of Shares issuable as the Share Compensation where members of the Compensation Committee are also the same directors who are affected by the Compensation Committee’s decision, the

Corporation does not believe there will be any conflict of interests as a result because (i) the Compensation Committee's decision will subsequently be subject to the approval of the full Board; (ii) it is the Compensation Committee's duty to decide on remuneration related matters and it is legally obliged to act in the best interests of the Corporation and its Shareholders as a whole; and (iii) conflicts in relation to remuneration matters are inherent in nature and should not become more of a concern merely because the payment of half of the remuneration is done by way of Share issuance in lieu of cash.

Cessation

A director of the Corporation will cease to participate in the Director Share Compensation Arrangement on the earlier of (i) the date on which such director ceases to be a director of the Corporation, (ii) the effective date of a written agreement executed by such director and the Corporation that terminates the letter agreement governing the Director Share Compensation Arrangement for such director and (iii) the third anniversary of the AGM.

In addition, a Co-Chairman shall cease to participate in the Director Share Compensation Arrangement to the extent of the Share Compensation in respect of his Base Co-Chairman Fees on the earlier of (i) the date on which such Co-Chairman ceases to be an Executive Co-Chairman of the Corporation, (ii) the effective date of a written agreement executed by such Co-Chairman or his advisory services company and the Corporation that terminates the agreement governing the Director Share Compensation Arrangement for such Co-Chairman; (iii) the date on which the relevant director's service contracts is terminated; and (iv) the third anniversary of the AGM.

Assignment

The benefits under the Director Share Compensation Arrangement may not be assigned by the directors or Co-Chairmen of the Corporation.

Amendments to the Arrangement

The Board may elect to amend, suspend or terminate the Director Share Compensation Arrangement at any time without participant approval, provided that the Director Share Compensation Arrangement may not be amended, suspended or terminated without first: (i) obtaining the approval of any regulatory authority or the SEHK or TSX; and (ii) obtaining the consent or deemed consent of a participant where such action materially prejudices the rights of that participant.

The Board may not amend the Director Share Compensation Arrangement without obtaining the independent Shareholders' prior approval where such amendment(s): (i) removes or exceeds the issuance thresholds described above; (ii) reduces the purchase price of Shares under the Director Share Compensation Arrangement; (iii) extends the term of the Director Share Compensation Arrangement; (iv) increases the maximum allowable issuance of Shares under the Director Share Compensation Arrangement; (v) amends the amendment provisions of the Director Share Compensation Arrangement and/or (vi) changes the material terms of the Director Share Compensation Arrangement. For avoidance of doubt, only independent Shareholders are allowed to vote in the relevant resolution in respect of the aforesaid amendments.

Additionally, the Board may at any time, without the prior approval of the independent Shareholders, amend any term of the Director Share Compensation Arrangement, provided that: (i) it obtains the required approval of any regulatory authority or the SEHK or TSX; and (ii) it obtains the consent or deemed consent of a participant if the amendment would materially prejudice the rights of that participant under the Director Share Compensation Arrangement.

Application for the listing of the new Shares

The Corporation will apply to the SEHK and the TSX for the listing of, and permission to deal in, the new Shares issued under the Director Share Compensation Arrangement.

Ranking of new Shares to be issued

The new Shares issued under the Director Share Compensation Arrangement will rank, upon issue, *pari passu* in all respects with the Shares in issue at the time of allotment and issue of such new Shares.

Information on Sunshine

Sunshine is an Alberta-based independent energy company focused primarily on the evaluation, development and production of its portfolio of oil sands leases in the Athabasca region of north eastern Alberta.

Information of the Counterparties

The counterparties of the arrangement include all directors of the Corporation as at the date of this announcement save for Mr. Liu. Please refer to the Circular for brief biographies for each director.

Reasons and Benefit of the Director Share Compensation Arrangement

The directors and Co-Chairmen will hold an increasing number of Shares of the Corporation pursuant to the operation of the Director Share Compensation Arrangement, which the Board believes will further align the interests of the directors and Co-Chairmen to those of the Corporation and the Shareholders as a whole. Given that (i) the Shares issuable at the Director Share Compensation Arrangement are priced at the fair market value at the Due Date in accordance with the terms of the Director Share Compensation Arrangement as described more specifically under the heading "*Calculation Mechanism*" above; (ii) such issuance of Shares are in nature payment in lieu of part of directors' and Co-Chairmen's cash remuneration as consideration for the services they render to the Corporation in accordance with the compensation arrangements the Corporation has with the directors and Co-Chairmen; (iii) such issuance of shares will not increase the directors' entitlement to their Base Retainer Fees and, where applicable, Base Co-Chairman Fees, payable at the relevant Due Date; (iv) such arrangement will further align the interests of the directors with that of the Corporation and provide more incentives to the directors and Co-Chairmen to promote the development and success of the Corporation; and (v) such arrangement saves the cash expenditure of the Corporation and improves its cash flow; the Board believes that the Director Share Compensation Arrangement is on normal commercial terms, is in the ordinary and usual course of business of the Corporation, is fair and reasonable and is in the best interests of the Corporation and its Shareholders as a whole.

Listing Rules Implications

Since directors of the Corporation are connected persons of the Corporation pursuant to Rule 14A.11 of the Listing Rules, the allotment and issuance of the Shares under the Director Share Compensation Arrangement constitute connected transactions of the Corporation under the Listing Rules.

The allotment and issuance of Shares under the Director Share Compensation Arrangement is subject to the prior consent of the Shareholders at the AGM pursuant to Rule 13.36 of the Listing Rules. As none of the exemptions under Chapter 14A apply, the issuance of the Shares under the Director Share Compensation Arrangement falls into the category of connected transactions described in Rule 14A.16(5) of the Listing Rules and shall be subject to the reporting, announcement and independent Shareholders' approval requirements pursuant to Rule 14A.17 of the Listing Rules, and shall be subject to the requirements in respect of the establishment of an independent board committee and the appointment of an independent financial adviser pursuant to Rule 14A.21, Rule 13.39(6) and Rule 13.39(7) of the Listing Rules. As all independent non-executive directors have a material interest in the Director Share Compensation Arrangement, no independent board committee can be formed. The recommendation of Investec Capital Asia Limited, the independent financial advisor to the independent shareholders, regarding the Director Share Compensation Arrangement is set out in the Circular.

By Order of the Board of Sunshine Oilsands Ltd.

Michael John Hibberd
Co-Chairman

and

Songning Shen
Co-Chairman

Hong Kong, June 11, 2014
Calgary, June 10, 2014

As at the date of this announcement, the Board consists of Mr. Michael John Hibberd and Mr. Songning Shen as executive directors; Mr. Hok Ming Tseung, Mr. Tingan Liu, Mr. Haotian Li and Mr. Gregory George Turnbull as non-executive directors; and Mr. Raymond Shenti Fong, Mr. Wazir Chand Seth, Mr. Robert John Herdman and Mr. Gerald Franklin Stevenson as independent non-executive directors.

FORWARD-LOOKING INFORMATION AND DISCLAIMER

This announcement contains forward-looking information relating to, among other things: (a) the future objectives of the Corporation; (b) the plans and expectations of the Corporation; and (c) the Corporation's implementation of and issuance of shares under the Director Share Compensation Arrangement. Such forward-looking information is subject to various risks, uncertainties and other factors. All statements other than statements and information of historical fact are forward-looking statements. The use of words such as "estimate", "forecast", "expect", "project", "plan", "target", "vision", "goal", "outlook", "may", "shall", "will", "should", "believe", "intend", "anticipate", "potential", and similar expressions are intended to identify forward-looking statements. Forward-looking statements are based on Sunshine's experience,

current beliefs, assumptions, information and perception of historical trends available to Sunshine, and are subject to a variety of risks and uncertainties including, but not limited to those associated with shareholder approval, regulatory approval and the costs associated with compliance. Although Sunshine believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned that the assumptions and factors discussed in this announcement are not exhaustive and readers are not to place undue reliance on forward-looking statements as our actual results may differ materially from those expressed or implied. Sunshine disclaims any intention or obligation to update or revise any forward-looking statements as a result of new information, future events or otherwise, subsequent to the date of this announcement, except as required under applicable securities legislation. The forward-looking statements speak only as of the date of this announcement and are expressly qualified by these cautionary statements. Readers are cautioned that the foregoing lists are not exhaustive and are made as at the date hereof. For a full discussion of our material risk factors, see "Risk Factors" in the Annual Information Form of the Corporation for the year ended December 31, 2013 and risk factors described in other documents the Corporation files from time to time with securities regulatory authorities, all of which are available on the Hong Kong Stock Exchange at www.hkexnews.hk, on the SEDAR website at www.sedar.com or the Corporation's website at www.sunshineoilsands.com.